1:Stanford U. S-4, 5 1956 AF14 Central China AF14

conducts its former business at a single counter, identified with the name of the former bank; only 40 per cent of the old staff were re-employed, and the important positions were given to new employees sent from the People's Bank or to the so-called activists. 652 453

It is evident that this bank is only a department of the People's Bank, created to deal with private enterprises, and will be dissolved when most of the industry has been converted to joint enterprises and when private commerce will have been full exterminated.

G. Credit Co-operatives

At the bottom of the Communist banking pyramid are the credit co-operatives. Their establishment and operation, at earlier stages, seemed to have the welfare of the peasants in mind; rural credit was to be extended through co-operatives. Now emphasis has shifted, and the Communists try to attract peasants' savings deposits and utilize them to subsidize those in need. Moreover, the government is now attempting to contract its note issue, increased by government purchases of grain and cotton, by forcing farmers to deposit the proceeds of their sales with credit co-operatives. 452 474

There are three types of credit co-operatives: (1) credit co-operatives, the highest level of co-operative organization, having members and directors; their financial resources consist of members' capital and deposits; (2) credit departments, attached to supply and marketing co-operatives which have neither members nor independent capital and which

1:Stanford U. S-4, 5 1956 AF14 Central China AF14

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for financial resources rely upon deposits and some special funds allocated by the co-operatives concerned; and (3) mutual-aid credit, which is of the lowest level. Each credit co-operative is organized among twenty or thirty farmers, each farmer subscribing an equal amount of funds to the group to help those of their own number when in need. Credit is extended by agreement of the subscribers and is redeemable in installments.

At the beginning of the fourth quarter of 1954 it was reported that there were more than 30,000 credit co-operatives in Central-South China, about 42 per cent of the total for all of China.

H. Chinese People's Insurance Company

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The Chinese People's Insurance Company was set up on October 20, 1949, under the direction of the Ministry of Finance and the People's Bank.[6] Its aim was to eliminate foreign-operated and Chinese-owned insurance firms, and to concentrate the insurance business in the hands of the government. Branches and sub-branches were established throughout the country, and where there is no separate branch office of the sinsurance company the People's Bank acts as its agent.

Assets of government organs, state enterprises and co-operatives as well as persons travelling by train, steamer and airplane are compulsorily insured. Group personal insurance and insurance on cotton crops and animals used for ploughing are actively encouraged, while other kinds of insurance are available but not at present actively promoted.

6. Hsin Chung-kuo Ta-shih Chi-k'an [New China Events Quarterly], No. 4, Peking, Jen-min chu-pan-she, 1949, p. 125; Cheng Chu-yüan, op. cit., p. 116.

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government had prohibited public enterprises to purchase on credit. But, in view of the general failure to observe this prohibition, a conference was recently convened to discuss ways of completely eliminating purchases on credit between all public organizations.[12] The conference is to reaffirm the government's determination on this subject.

According to Communist policy, capital investments should be provided by the government in budget appropriations; therefore, no banking funds are to be used for long-term credit.

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Rural credit funds were almost entirely provided by the People's Bank; the extension of credit was mostly made through the credit co-operatives. Loans were to be repaid with the proceeds of compulsory sales of grain and cotton, which the peasants were forced to deposit with the co-operatives. The co-operatives have been able to attract few deposits besides these proceeds.

The amount of credit extended by the co-operatives was extremely small. For example, Communist newspapers report that 9,000 co-operatives in Hunan Province granted PB$49 million of credit in June 1954, averaging 5.5. million (US$220) from each co-operative. One village in Hupeh Province, having suffered a flood in mid-1954, obtained PB$ 21 million from 3 co-operatives for 183 farm households, averaging PB$7 million (US$280) granted by each co-operative and PB$114,000 (US$4.56)[13]

12. Ta-kung Daily, Tientsin, May 7, 1955.

13. These figures are in the pre-March 1955 old currency. See People's Daily, Peking, Jul. 13, 1954.

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for each farm household. Such amounts are too trifling to relieve the Chinese peasants who are constantly in seasonal financial difficulties, quite aside from the need for funds for increasing production.

IV. CURRENCY

A. Currency System

Notes of the People's Bank of China, first introduced in December 1948 in North China, were put in circulation throughout Central-South China following the Communist victory and the establishment of local People's Bank offices. This paper currency has become the only legal tender throughout the whole country. It was issued at first in denominations of 1, 5, 10, 50 and 100 dollars. By the second half of 1949, currency inflation made it necessary to issue notes of larger denominations of 500 and 1,000 dollars; this was followed by the 10,000 denomination note at the end of 1949, and the 50,000 denomination note at the beginning of 1954.

On February 21, 1955, a government order announced that starting on March 1 new People's Bank notes in denominations of one yuan, 2, 3, 5, and 10 yuan, one chiao (ten cents), five chiao, one fen (cent), two and five fen would be issued, and that the old People's Bank notes would be called in at the rate of 10,000 to 1.[14] After April 1, only small denomination notes of 5,000 and less of the old issue might continue to be used. It was also announced by the People's Bank that 10 yuan notes would not be issued for the time being.

14. Photo samples of some of the new notes are appended at the end of chapter. New China News Agency Release, Peking, February 21, 1955.